

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY**

**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary information)**

**YEAR ENDED JUNE 30, 2006**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Outlook Academy, Strict Discipline Academy  
Allegan, Michigan

August 25, 2006

We have audited the accompanying financial statements of the governmental activities and the major fund of Outlook Academy, Strict Discipline Academy, as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Outlook Academy, Strict Discipline Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund of Outlook Academy, Strict Discipline Academy as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors  
Outlook Academy, Strict Discipline Academy  
Allegan, Michigan

August 25, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006 on our consideration of Outlook Academy, Strict Discipline Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through ix and 15, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mamer, Costenisan & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Outlook Academy's annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section. Comparative analyses are provided to compare this year versus the prior year.

### Financial Highlights

- The assets for the district exceeded its liabilities at the close of the most recent fiscal year by \$120,272 (net assets). All of this amount represents *unrestricted net assets* and may be used to meet the Academy's ongoing obligations for general academy programs.
- Revenues increased 29.4 percent over the prior year to \$293,541. Blended enrollment used for state aid purposes was 18, an increase of 3.0 FTE over the prior year. Local sources of revenue increased \$36,569 from the prior year mainly because local districts were billed back for students received after the membership count.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide financial statements that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Table A-1 shows how the various parts of the annual report are arranged and related to one another.

**Table A-1**  
**Organization of the Academy's**  
**Annual Financial Report**

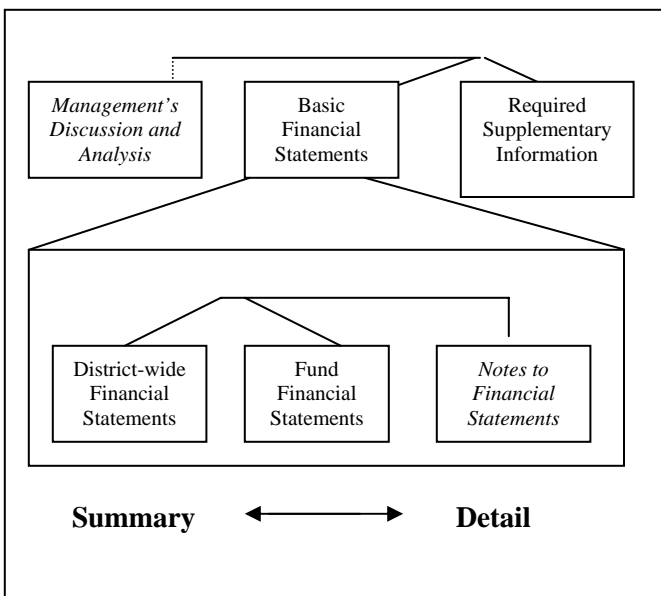


Table A-2 summarized the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

**Table A - 2 Major Features of the Academy-Wide and Fund Financial Statements**

	Academy-wide statements	Fund Financial Statements
		Governmental funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary (the Academy does not have fiduciary funds)
Required financial statements	* Statement of net assets	* Balance sheet
	* Statement of activities	* Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

### Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy’s net assets and how they have changed. Net assets – the difference between the Academy’s assets and liabilities, are one way to measure the Academy’s financial health or position.

- Over time, increases or decreases in the Academy’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy’s enrollment, the availability of sufficient funds, and its ability to afford a large enough facility.

In the Academy-wide financial statements, the Academy's activities:

- Governmental activities - The Academy's basic services are included in the general fund, such as regular education and administration. State foundation aid and federal sources finance most of these activities.

### **Fund financial statements**

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law.
- The Academy could establish other funds to control and manage money for particular purposes (like repaying long-term debts) or to show that it is properly using certain revenues (like food service).

All of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

### **Financial analysis of the Academy as a whole**

Net assets - the Academy's combined net assets increased from the prior year by \$8,264, increasing the fund balance to \$120,272. See Table A - 3.

Total revenue increased 29.4% to \$293,541.

Total cost of instruction increased 30.9% to \$188,432 and total support service expenditures increased 2.8% to \$96,845. Overall, total expenditures increased 19.8% or \$47,234 to \$285,277.

<b>Figure A-3</b> <b>Academy Net Assets</b>		
	2005-06	2004-05
Current assets:		
Cash and cash equivalents	\$ 84,508	\$ 76,535
Due from other governmental units	52,856	45,845
<b>Total assets</b>	<b>137,364</b>	<b>122,380</b>
Current liabilities:		
Accounts payable	921	1,035
Accrued salaries and related items	16,171	8,259
Due to other governmental units		1,078
<b>Total liabilities</b>	<b>17,092</b>	<b>10,372</b>
Net assets:		
Unrestricted	120,272	112,008
<b>Total net assets</b>	<b>\$ 120,272</b>	<b>\$ 112,008</b>

<b>Figure A-4</b> <b>Changes in Academy's Net Assets</b>		
	2005-06	2004-05
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 79,411	\$ 62,930
Charges for services	2,462	1,274
General revenues:		
Family court	46,805	46,546
State sources	129,384	115,716
Other	35,479	357
<b>Total revenues</b>	<b>293,541</b>	<b>226,823</b>
Expenses:		
Instruction	188,432	143,901
Support services	96,845	94,142
<b>Total expenses</b>	<b>285,277</b>	<b>238,043</b>
Change in net assets	\$ 8,264	\$ (11,220)



## **Financial analysis of the Academy's funds**

As the Academy completed the year, its governmental fund reported a fund balance of \$120,272, an increase of \$8,264 over last year's total of \$112,008. This represents approximately five months of the 2005-06 total general fund expenditures.

### **General fund budgetary highlights**

Over the course of the year, the Academy amended the annual operating budget two times, most recently on May 10, 2006. Total general fund revenues increased \$27,797 or 10.9% from the original to the final budget. The increase is attributed to grants that were written and received throughout the year but were not originally budgeted. These grants were used to purchase a variety of computers, reading programs, and other materials to assist in the education of the students. Total expenditures increased \$38,703 or 15.9% from the first budget to the final budget for the same reasons listed above.

## **Capital assets and debt administration**

### **Capital assets**

At year end, the Academy reported no capital assets. Capital assets could consist of land, buildings and improvements, and equipment and furniture.

### **Long-term debt**

At year-end the Academy had no long-term debt.

## **Factors bearing on the Academy's future**

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could affect its financial health in the future.

Student enrollment continues to be an important issue for the Academy. The blended count rose from 12 in the first year of operation to 18 this year. The count will need to continue to rise and/or additional revenue streams will be needed to support necessary staffing levels.

The Academy is projecting a deficit of over \$40,000 for the 2006-07 school year. If changes are not made to either revenue or expenditures in the next two years, the Academy could be forced to close its operations.

## **Requests for information**

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact Mike Hagerty, Assistant Superintendent for Non-Instructional Services, Allegan Area ESA, 310 Thomas St., Allegan, MI 49010.

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	<u>Governmental activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 84,508
Due from other governmental units	<u>52,856</u>
<b>TOTAL CURRENT ASSETS</b>	<u><u>\$ 137,364</u></u>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 921
Accrued salaries and related items	<u>16,171</u>
<b>TOTAL CURRENT LIABILITIES</b>	17,092
<b>NET ASSETS:</b>	
Unrestricted	<u>120,272</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 137,364</u></u>

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2006**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net assets</u>
Governmental activities:				
Instruction	\$ 188,432	\$	\$ 72,456	\$ (115,976)
Support services	96,845	2,462	6,955	(87,428)
Total governmental activities	<u>\$ 285,277</u>	<u>\$ 2,462</u>	<u>\$ 79,411</u>	<u>(203,404)</u>
General revenues:				
Family court				46,805
State sources				129,384
Other				35,479
Total general revenues				<u>211,668</u>
<b>CHANGE IN NET ASSETS</b>				8,264
<b>NET ASSETS, beginning of year</b>				<u>112,008</u>
<b>NET ASSETS, end of year</b>				<u>\$ 120,272</u>

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2006**

	<u>General fund</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 84,508
Due from other governmental units	<u>52,856</u>
<b>TOTAL CURRENT ASSETS</b>	<u><u>\$ 137,364</u></u>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 921
Accrued salaries and related items	<u>16,171</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>17,092</u>
<b>FUND BALANCE:</b>	
Designated for subsequent year's expenditures	41,118
Unreserved - undesignated	<u>79,154</u>
<b>TOTAL FUND BALANCES</b>	<u>120,272</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 137,364</u></u>

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
YEAR ENDED JUNE 30, 2006**

	<b>General fund</b>
<b>REVENUES:</b>	
Local sources:	
Family court revenue	\$ 46,805
Other local revenue	37,941
	<hr/>
Total local sources	84,746
State sources	137,402
Federal sources	71,393
	<hr/>
Total revenues	293,541
	<hr/>
<b>EXPENDITURES:</b>	
Instruction:	
Basic programs	188,432
Support services:	
General administration	14,963
School administration	3,600
Business	13,994
Operation and maintenance	34,810
Transportation	29,478
	<hr/>
Total expenditures	285,277
	<hr/>
<b>NET CHANGE IN FUND BALANCE</b>	8,264
<b>FUND BALANCE</b> , beginning of year	112,008
	<hr/>
<b>FUND BALANCE</b> , end of year	\$ 120,272
	<hr/> <hr/>

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

<b>Net change in fund balance total governmental fund</b>	\$ 8,264
There are no reconciling items for the year ended June 30, 2006.	<hr/>
<b>Change in net assets of governmental activities</b>	<u><u>\$ 8,264</u></u>

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of Outlook Academy, Strict Discipline Academy (the Academy) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

**A. Reporting Entity**

The Academy was incorporated July 3, 2002 for the purposes of operating as a public school strict discipline academy in the State of Michigan pursuant to Sections 1311*b* to 1311*l* of the Revised School Code, being MCL 380.1311*b* to 380.1311*l* (the "Code"). The Academy, including all activities incident to its purposes, shall at all times be conducted so as to be a governmental entity pursuant to Section 115 of the United States Internal Revenue Code ("IRC") or any successor law. Allegan County Intermediate School Academy is the authorizing body for the Academy and has contracted with the Academy to charter a public school academy for a period of three years. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy, property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

The Academy has followed the guidelines of the Governmental Accounting Standards Board Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the Academy's financial statements only.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Academy. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Concluded)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school Academy and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. For the year ended June 30, 2006 there are no reconciling items for full accrual basis. The Academy's net assets are all reported as unrestricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs (by function) are normally covered by general revenue (state sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** - Governmental funds are those funds through which most school Academy functions typically are financed. The acquisition, use and balances of the school Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.



**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school Academies based on information supplied by the Academy. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

**Modified Accrual Method (Concluded)**

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

**State Revenue**

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intend to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other Accounting Policies (Concluded)**

2. Fund Balance

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute “available spendable resources.” The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

3. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the general fund. All annual appropriations lapse at fiscal year end.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Administrator submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)**

3. The Administrator is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

**Interest rate risk.** The Academy does not have a formal investment policy that limits investment maturities as a mean of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The Academy has no investment policy that would further limit its investment choices. As of June 30, 2006, the Academy had no investments.

**Concentration of credit risk.** The Academy places no limit on the amount the Academy may invest in any one issuer. At June 30, 2006, the Academy had no investments.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2006, none of the Academy's bank balance of \$84,508 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy had no investments at June 30, 2006.

**Foreign currency risk.** The Academy is not authorized to invest in investments which have this type of risk.

Cash is held in the name of the Academy in the general fund.

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The Academy is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 14.87% through September 2005 and 16.34% for October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the Academy are established and may be amended by the MPERS Board of Trustees. The Academy contributions to MPERS for the year ended June 30, 2006, 2005 and 2004, were approximately \$19,200, \$17,200 and \$18,500, respectively, equal to the required contribution for the year.

The Academy is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - RISK MANAGEMENT**

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize the risk, the Academy carries commercial insurance.

**NOTE 6 - AUTHORIZING BODY**

Allegan County Intermediate School Academy (ACISD) is the authorizing body and fiscal agent. The term of the agreement expires June 30, 2008. The Academy has agreed to pay ACISD 3% of its school aid payments as an administrative fee.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**THE OUTLOOK ACADEMY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2006**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
<b>REVENUES:</b>				
Local sources:				
Family court revenue	\$ 85,842	\$ 46,953	\$ 46,805	\$ (148)
Other local revenue		39,359	37,941	(1,418)
Total local sources	85,842	86,312	84,746	(1,566)
State sources	170,041	131,159	137,402	6,243
Federal sources		66,209	71,393	5,184
Total revenues	<u>255,883</u>	<u>283,680</u>	<u>293,541</u>	<u>9,861</u>
<b>EXPENDITURES:</b>				
Instruction:				
Basic programs	152,796	190,266	188,432	1,834
Support services:				
General administration	9,000	9,238	14,963	(5,725)
School administration	7,303	3,600	3,600	
Business	11,875	13,994	13,994	
Operation and maintenance	31,600	34,179	34,810	(631)
Transportation	30,000	30,000	29,478	522
Total expenditures	<u>242,574</u>	<u>281,277</u>	<u>285,277</u>	<u>(4,000)</u>
<b>NET CHANGE IN FUND BALANCE</b>	13,309	2,403	8,264	5,861
<b>FUND BALANCE, beginning of year</b>	<u>112,008</u>	<u>112,008</u>	<u>112,008</u>	
<b>FUND BALANCE, end of year</b>	<u><u>\$ 125,317</u></u>	<u><u>\$ 114,411</u></u>	<u><u>\$ 120,272</u></u>	<u><u>\$ 5,861</u></u>





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Bruce J. Dunn  
Jeffrey C. Stevens  
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Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Outlook Academy, Strict Discipline Academy  
Allegan, Michigan

August 25, 2006

We have audited the financial statements of the governmental activities and the major fund of Outlook Academy, Strict Discipline Academy as of and for the year ended June 30, 2006, which collectively comprise Outlook Academy's basic financial statements and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Outlook Academy, Strict Discipline Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matter involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors  
Outlook Academy, Strict Discipline Academy  
Allegan, Michigan

August 25, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Outlook Academy, Strict Discipline Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Outlook Academy, Strict Discipline Academy in a report dated August 25, 2006.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Maury Costigan, E. Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants



Iamonte T. Lator  
Bruce J. Dunn  
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August 25, 2006

To the Board of Education  
Outlook Academy, Strict Discipline Academy  
Allegan, Michigan

In planning and performing our audit of the financial statements of Outlook Academy, Strict Discipline Academy for the year ended June 30, 2006, we considered the Academy's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 25, 2006 on the financial statements of Outlook Academy, Strict Discipline Academy.

#### Grant Expenditure Reconciliation

Certain grant expenditures are not reconciled from the general ledger to the close-out reports that are submitted to the granting authorities. Reconciliation of all grant expenditures per the requests done by the grant administrator to the general ledger expense accounts should be done annually, at a minimum, in order to ensure proper reporting to federal, state and local authorities. Grant revenues that are given on a reimbursement basis must equal expenses. We further recommend an individual be responsible for matching receipts with requests to ensure all requests for expenditures are received.

Verification of Numerical Check Sequence

Currently there is no verification by the board of the numerical check sequence. We recommend the beginning and ending check number be included in the board minutes as the board reviews all the check from month to month. This additional documentation will allow the board to not only verify sequence within each check run, but from one month of disbursements to the next.

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the Academy in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where an academy's actual revenues were less than budgeted revenues and, at the same time, depleted the Academy fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act we believe the Academy's current budget procedures are adequate.

#### New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the Academy's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the Academy beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the Academy could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a “material weakness” and added two new categories of deficiencies “significant deficiency” and “control deficiency”. Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the Academy. We will have to evaluate the Academy’s ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

#### Cash Management – Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the Academy within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

To the Board of Education  
Outlook Academy, Strict Discipline Academy  
Allegan, Michigan

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August 25, 2006

We recommend the Academy request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Academy personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Outlook Academy, Strict Discipline Academy management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Mamie Costigan, E. Ellis, P.C.*



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August 25, 2006

To the Board of Education  
Outlook Academy, Strict Discipline Academy  
Allegan, Michigan

We have audited the financial statements of Outlook Academy, Strict Discipline Academy for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under the U.S. Generally Accepted Auditing Standards and Government Audit Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Outlook Academy, Strict Discipline Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Outlook Academy, Strict Discipline Academy's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Outlook Academy, Strict Discipline Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during year. We noted no transactions entered into by Outlook Academy, Strict Discipline Academy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.



3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements for the year ended June 30, 2006

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Outlook Academy, Strict Discipline Academy's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Outlook Academy, Strict Discipline Academy, either individually or in the aggregate, indicate matters that could have a significant effect on the Outlook Academy, Strict Discipline Academy's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Outlook Academy, Strict Discipline Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Board of Education  
Outlook Academy, Strict Discipline Academy  
Allegan, Michigan

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August 25, 2006

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of management of Outlook Academy, Strict Discipline Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Mamey Costeniser & Ellis, P.C.*